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TAGS: [MARR](#) [MCAP](#) [PARM](#) [PREL](#) [KS](#)
SUBJECT: NEW ROK SMA FORMULA HIGHLY PROBLEMATIC

REF: 05 SEOUL 1300

Classified By: A/Pol Brian D. McFeeters. Reasons 1.4 (b,d).

11. (C) Summary. On June 5, 2007, Ambassador Robert Loftis, Senior Advisor for Security Negotiations and Agreements, held a two-hour discussion and working lunch with Ministry of Foreign Affairs and Trade (MOFAT) Director General for North American Affairs Cho Byung-jae to discuss the ROK's "Proposal for a New SMA (Special Measures Agreement) Formula" (text of proposal at final para.). The proposal was disappointing because it was nearly identical to a proposal rejected by the USG two years ago. The "new" ROK SMA formula would shift ROK cash contributions for construction to in-kind support. What is new is the ROKG position that, after the end of the current SMA, SMA funds would not be available for use by U.S. Forces Korea (USFK) to build the new facilities needed to complete the Land Partnership Plan (LPP) agreement. Contrary to the stated aim of the ROK government to "depoliticize" the SMA process, the ROKG's proposed prohibition against using SMA funds for LPP -- which resulted from a supplementary opinion the National Assembly attached to passage of the current SMA -- would further complicate the follow-on U.S.-ROK burdensharing negotiations. End Summary.

BACKGROUND

12. (C) On May 31, 2007, two days before Ambassador Loftis was due to arrive in Seoul, DG Cho provided POL M/C Yun with the ROK's "Proposal for a New SMA Formula." This so-called "new" proposal for determining the ROK's share of its alliance burdensharing contribution had been anticipated since Foreign Minister Song Min-soon had told the Ambassador six months earlier that he wished to propose a new SMA formula that would make U.S.-ROK burdensharing negotiations more an administrative matter than a political fight. The May 31 ROKG proposal was disappointing because most of it is not at all "new," but is in fact nearly identical to a proposal the ROKG had put forward, and the USG had rejected, two years earlier.

13. (C) The earlier ROKG formula proposed shifting the two SMA construction accounts (ROK Korea Funded Construction (ROKFC) and Combined Defense Improvement Projects (CDIP)) from the SMA into a single account handled under the SOFA, similar to

the Joint Defense Improvement Projects (JDIP) program in Japan. Although it would have allowed these funds to be used for the LPP, it would have been entirely voluntary and at the discretion of the ROKG, and was rejected by the USG. The new ROKG proposal would prohibit USFK from using SMA funds to build the new facilities needed to complete the movement of the 2nd Infantry Division (2ID) under the 2004 U.S.-ROK LPP. Contrary to the stated aims of FM Song, that constraint -- resulting from a supplementary opinion the ROK National Assembly attached to passage of the current 2007-2008 SMA -- would likely make U.S.-ROK burdensharing negotiations more, rather than less, contentious and lead to greater problems for the Alliance given the implications for USFK realignment and the fulfillment of the LPP.

MAIN ELEMENTS OF THE ROK SMA PROPOSAL

14. (C) On June 5, 2007, a USG delegation led by Ambassador Loftis met a MOFAT team headed by DG Cho for two hours to discuss the ROK proposal. During what both agreed was a "consultation," rather than a "negotiation," DG Cho explained the content of the ROK proposal in detail. Cho stressed that:

-- The ROK recognized that its burdensharing contribution was an important part of its commitment to the ROK-U.S. Alliance and that it helped to provide a stable stationing environment for USFK, thereby enhancing the combined defense capabilities of the U.S.-ROK Alliance. The ROKG wished to continue to provide that contribution and therefore did not seek to reduce its overall SMA contribution.

-- However, the ROKG faced a significant problem with the current SMA procedure because the burdensharing issue had become "too politicized" in Korea over the last several years, with many questioning the transparency of the burdensharing calculation and usage of SMA funds. Following lengthy discussions within the ROKG, a consensus was reached that in order to depoliticize the SMA it would be necessary to create a new burdensharing mechanism that could handle the issue in an administrative, rather than political, manner.

-- This could best be achieved by enhancing the "transparency, accountability, and predictability" of the SMA process. Increasing understanding of the process by the Korean people would help to increase ROK public support for burdensharing.

-- The ROK believed that transparency and accountability could best be enhanced by increasing its in-kind support to USFK, while decreasing the amount of cash given to USFK.

-- Funds from past and the present SMA could be used by USFK to finance LPP, and that should cover the bulk of the U.S. share of LPP construction. The "small shortfall" could be made up with U.S. appropriated Mil-Con or the savings realized from the ROKG increase in its share of labor and logistics costs. (Note: USFK initial estimates, however, show that past and current SMA funds would only amount to 55% of the U.S. funding for LPP.)

-- Under the SMA, the ROK would contribute most (Cho said 95 percent) of USFK's ROK labor and logistical costs; the former in cash, the latter in-kind.

-- The construction categories of the SMA would be replaced by a new system under which the ROK would provide the facilities required by USFK. The ROKG would select those construction projects in consultation with the USG and in accordance with SOFA procedures.

-- In accordance with the 2007 supplementary opinion of the National Assembly, after the current 2007-2008 SMA expires, the ROK labor and logistics contributions provided through the SMA and the construction provided through the SOFA procedures would NOT be used to support the LPP.

-- In accordance with a second 2007 supplementary opinion of the National Assembly, the ROK would endeavor to complete the SMA negotiations process by the end of May 2008, so that the ROK contribution could be included in the regular ROKG budget cycle. The ROKG therefore wished to reach agreement with the USG on a new formula by the end of 2007, and to utilize that new formula during the follow-on SMA negotiations in the first half of 2008.

-- If the USG agreed to the ROK proposal, the ROKG would agree in principle to concluding longer-term agreements (of more than 2 years).

NO SMA CONTRIBUTIONS FOR LPP

15. (C) In explaining the new ROK proposal, DG Cho stated that the SMA issue had become politicized within the Republic of Korea because the National Assembly generally opposed using SMA funds to fund LPP. Cho explained that the National Assembly had questioned why the USG was not paying for its obligations under LPP with its own money, but instead planned to use SMA funds for that purpose. When it did not receive what it considered to be an adequate answer, the National Assembly had attached a supplementary opinion to the current SMA prohibiting the future use of SMA funds for LPP. Cho added that MOFAT had been trying to "muddle through" on the completion of the LPP by allowing USFK to utilize SMA funds for LPP construction projects with no objection, but that recent negative publicity of the fact had brought the issue to the attention of the National Assembly.

MOFAT: WE NEED U.S. COOPERATION TO GET US OUT OF TROUBLE

16. (C) Cho went on to explain that because MOFAT had gotten into trouble with the National Assembly over the issue, it was asking the USG to accept its proposed solution. The solution, Cho said, was for the ROKG to increase its SMA contributions in the labor and logistics categories to 95 percent. USFK would then use the money saved (because the ROK would be paying most of the cost in those categories) to carry out the needed LPP construction, Cho suggested. This plan would not result in a change in the overall ROK contribution, because while it would raise the amount it spends on labor and logistics, it would zero out the amount it provides under the ROK Korea Funded Construction (ROKFC) and Combined Defense Improvement Projects (CDIP) categories. Because the increases and decreases in ROK contributions across these categories would largely offset one another, Cho stated that the changes proposed by the ROK "would not impact the total Korean burdensharing commitment, which may even increase." Cho repeatedly asked for U.S. "flexibility" and assurances that SMA funds would not be used for LPP.

SERIOUS SHORTCOMINGS OF THE ROK PROPOSAL

17. (C) After listening carefully to DG Cho's presentation, Ambassador Loftis responded that the ROK's "new" SMA proposal was, in fact, almost identical to a proposal the USG had found unacceptable two years earlier. On the issue of using SMA funds for LPP, Ambassador Loftis and the rest of the U.S. delegation, which included representatives from OSD and USFK, made it clear that the ROKG's "political problem" was of its own making, because it had failed to be forthright with the National Assembly about the understanding it has had with USFK that SMA funds can, will, and must be used to implement the LPP agreement. What the ROKG was asking the USG to do was impossible, Loftis added, because USFK could not divert funds appropriated for one purpose (labor and logistics) to another purpose (construction) without violating U.S. law. Consequently, the burden remained on MOFAT and the ROKG to find a solution to this dilemma that did not involve either violations of U.S. law or the USG seeking additional funding from the U.S. Congress, as the ROK had also frequently

proposed.

¶8. (C) Ambassador Loftis acknowledged that the USG shared the ROKG's goal of making SMA more predictable and less political, but strongly rejected the ROK contention that the SMA process lacked transparency and accountability, noting that the ROKG knows exactly where and for what purposes its SMA contributions are utilized by USFK. He pointed out that when the U.S. and South Korea began negotiations over LPP, the agreement was reached that SMA money would be used for LPP "in the interest of using the funds wisely," and the U.S. had since proceeded on that basis. Consequently, Cho's suggestion to separate SMA from LPP "may violate that agreement," a point DG Cho disagreed with, saying that "USFK may have planned to use SMA money for LPP implementation, but the ROK had not committed itself to it." (Note: During the LPP negotiations and discussions, the U.S. side explained that USFK would fund the 2ID relocation and that the USFK budget had two funding streams -- U.S. Congressionally appropriated funds and the SMA. The ROKG understood USFK's plans to use SMA funds for LPP construction (reftel).)

¶9. (C) Ambassador Loftis went on to explain that the problem was of MOFAT's own making, because MOFAT failed to properly keep the National Assembly informed of the SMA-LPP connection, choosing instead to "muddle through," a point that Cho did not dispute. Additionally, Ambassador Loftis stated that Cho's suggestion to request additional funds from the U.S. Congress simply would not be possible in the current climate because the Congress "will not appropriate funds for construction in Korea," both because Congress typically does not fund such new construction overseas, and because current ROKG financial support for USFK is "well below the mandated levels." If the SMA-LPP issue was not solved by MOFAT, Ambassador Loftis said, the two countries would find themselves with a significant problem in a couple of years, as the money to build the needed facilities would simply be unavailable.

¶10. (C) Ambassador Loftis proposed that because the problem was the direct result of MOFAT's repeated failings to clearly inform the National Assembly of this issue, MOFAT should use the next year to convince the National Assembly of the merits of using SMA funds to complete implementation of the LPP, rather than trying to shift the onus onto the United States. By Cho's own admission, the discussions with the National Assembly had consisted of one three-hour session with seven legislators: that was not adequate. Loftis concluded that it was unacceptable that the ROKG had created a problem with its own National Assembly and was now asking the USG to accept a solution that would create a problem with the U.S. Congress that did not currently exist.

NEXT STEPS

¶11. (C) Per conversations between Ambassador Loftis, the Embassy, USFK, and OSD, Ambassador Loftis will send a letter to DG Cho reminding the ROKG of the longstanding connection between the use of SMA construction funds and the completion of LPP, and the ROKG's explicit acceptance of that linkage.

TEXT OF THE ROK PROPOSAL

¶12. (C) Begin Text:

Proposal on a New SMA Formula

¶A. The Government of the Republic of Korea recognizes that the ROK's burden-sharing, as a token of a strong commitment to the ROK-U.S. alliance, is contributing to a stable stationing environment for the United States Forces in Korea (USFK) and enhanced combined defense capabilities.

¶B. However, whilst the ROK's burden-sharing is important, with the current formula the negotiations are taking an

excessively long time and the issue of transparency has constantly been raised in its calculation and implementation.

¶C. Against this backdrop and based on the understanding reached in the previous rounds of the negotiations on the Special Measures Agreement (SMA), the Government of the Republic of Korea would like to make the following proposal to the Government of the United States with a view to improving the current SMA formula.

Purpose

¶D. The new formula will enhance transparency and accountability in the calculation and implementation, establishing a more rational and predictable system of burden-sharing, thereby laying a basis for greater understanding of the system amongst Korean people and thus building public support for burden-sharing.

¶E. It will also provide for a fair level of the ROK's burden-sharing, thereby contributing to the strengthening and development of a future-oriented ROK-U.S. alliance.

Basic Direction for Improvements

¶F. By determining the total amount of the contribution on a basis of actual needs, the two governments will enhance the predictability and accountability of the ROK contribution.

¶G. The two governments will further enhance transparency in the implementation of the ROK contribution by maximizing in-kind support to the USFK.

Details

¶H. The Government of the Republic of Korea will bear a part of the stationing costs of the USFK through a two-tier burden-sharing system consisting of the 'Special Measures Agreement (SMA)' and the 'SOFA Procedures'.

a. Under the SMA, the Government of the Republic of Korea will contribute part of the labor costs for Korean national employees in the USFK and part of logistics costs.

i) The Government of the Republic of Korea will provide a certain agreed proportion of the labor costs for Korean national employees in cash within the ceiling stated in the Agreement.

ii) The Government of the Republic of Korea will provide a certain agreed proportion of logistics costs in in-kind form, within the ceiling stated in the Agreement, in accordance with the current method for paying invoices submitted by the USFK.

iii) In principle, the two governments will conclude a long-term agreement.

b. The Government of the Republic of Korea will provide the facilities required by the USFK under the 'SOFA Procedures'.

¶I. The Government of the Republic of Korea will consolidate the present Republic of Korea Funded Construction (ROKFC) and Combined Defense Improvement Projects (CDIP) into the Facilities Construction. The Government of the Republic of Korea will select projects in accordance with mutually agreed standards under the 'SOFA Procedures', through close consultations with the Government of the United States.

¶J. The two governments agree that, in and after the year of 2009, the ROK contribution provided through 'the SMA' and 'the SOFA Procedures' will not be used in the Land Partnership Plan (LPP projects).

a. However, this will not affect the total amount of the ROK contribution to the USFK provided through 'the SMA' and 'the SOFA Procedures'.

¶K. The two governments will take into full account the National Assembly's budget deliberations schedule.

a. The two governments will endeavor to complete the SMA negotiations process by the end of May of the year prior to the effectuation of the Agreement.

b. The two governments will strive to agree upon the amount of the ROK contribution for the Facilities Construction under the 'SOFA Procedures' annually by the end of May of the previous year.

Timetable for Further Negotiations

¶L. The two governments will endeavor to agree on a new formula by the end of 2007 and start implementation as of January 1, 2009.

End Text

PARTICIPANTS

¶13. (U) Participants List

United States -----

Ambassador Robert Loftis, Senior Advisor for Security Negotiations and Agreements
Mr. David Wolff, Pol-Mil Chief, AMEMB Seoul
Colonel Christopher P. DiNenna, Chief, Strategy and Policy Division, J5-J, USFK
Mr. Andrew Hyde, ROK Unit Chief, Office of Korea Affairs, DoS
Ms. Mary Beth Morgan, Korea Country Director, ISA/IA OSD
LCDR Kevin Aanestad, Korea Desk Officer, NEA Div J5, JCS
Mr. Jordan Heiber, AMEMB/Office of Korean Affairs, DoS
Mr. Charles Shin, International Relations Officer, Strategy and Policy Division, J5-J, USFK

Republic of Korea -----

Ambassador Cho Byoung-jae, Director General, North America Affairs Bureau, MOFAT
General Kim Byoung-gi, Deputy Director General, International Policy Bureau, MND
Mr. Lee Jeong-kyu, Director, North America Division III, MOFAT
Colonel Song Seong-jong, Director, U.S. Policy Division, MND
Mr. Oh Kee-young, Director, Construction Management Division, MND
Colonel Lee Chang-hee, Assistant Secretary to the President for National Security Policy
Mr. Jeong Yeon-doo, First Secretary, Korean Embassy to the U.S.
Mr. Moon In-seok, Second Secretary, North America Division III, MOFAT

¶14. (U) Ambassador Loftis has cleared this message.
VERSHBOW